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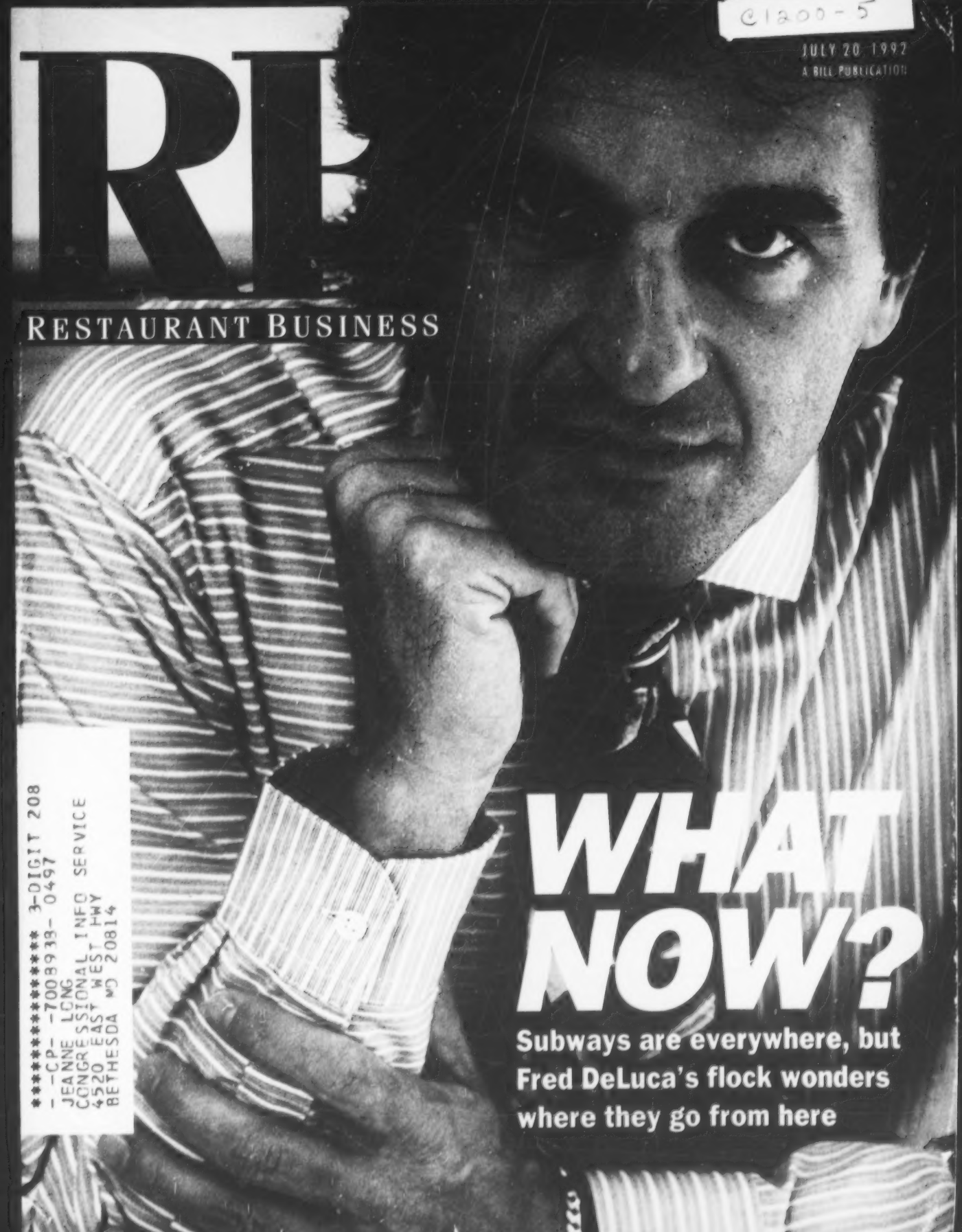

WHAT NOW?

Subways are everywhere, but Fred DeLuca's flock wonders where they go from here

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COVER STORY

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Cover photograph by Susan Greenwood

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MARKET SEGMENT REPORT FAMILY. The segment is enjoying renewed health, especially in chain unit growth. And just like the rest of the industry, they're all featuring special value menus that either offer smaller portions or complete meals at a reduced price.

TEST KITCHEN CONVENIENCE FOODS. This article demonstrates how operators can use convenience products as the components to create signature dishes. For example, a unique hand-held item like a turkey calzone can be made with frozen cut vegetables, soup base, frozen pizza dough, and precooked turkey.

DRAFTS, CARAFES THE CASUAL WINE LIST. There's a new ethic in wine lists today. Kitchy, casual, and moderately priced, these easy drinking vintages quench patron thirsts and keep customers coming back for more.

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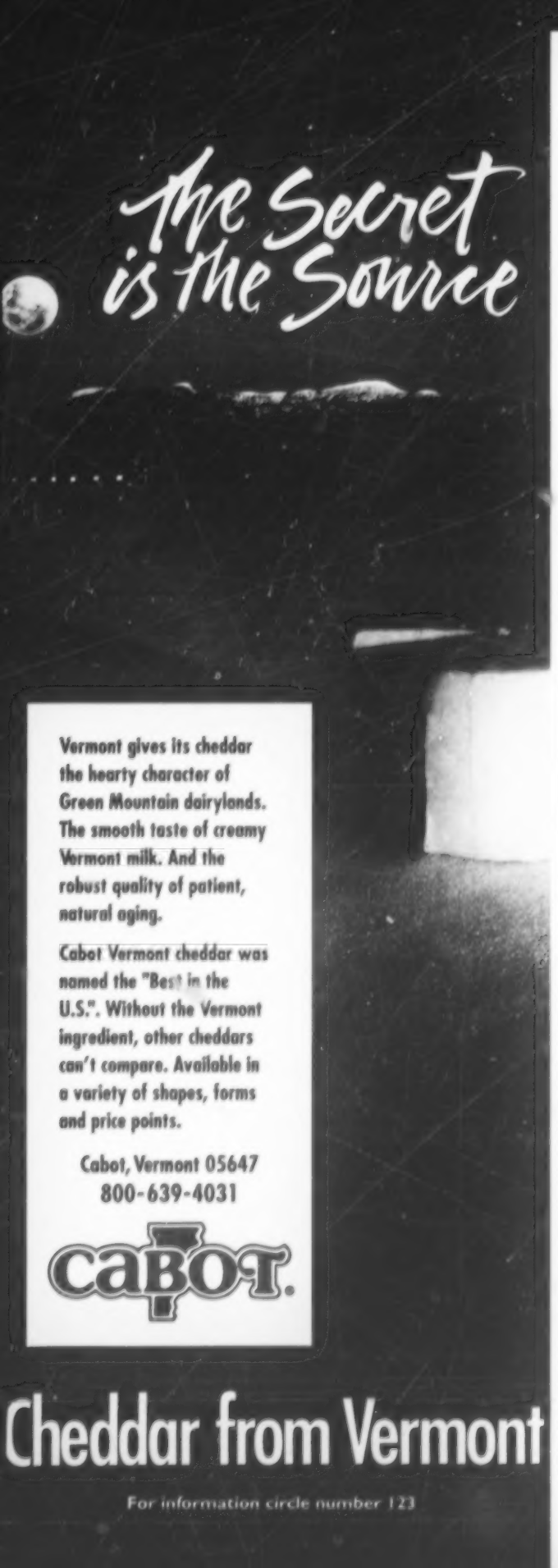
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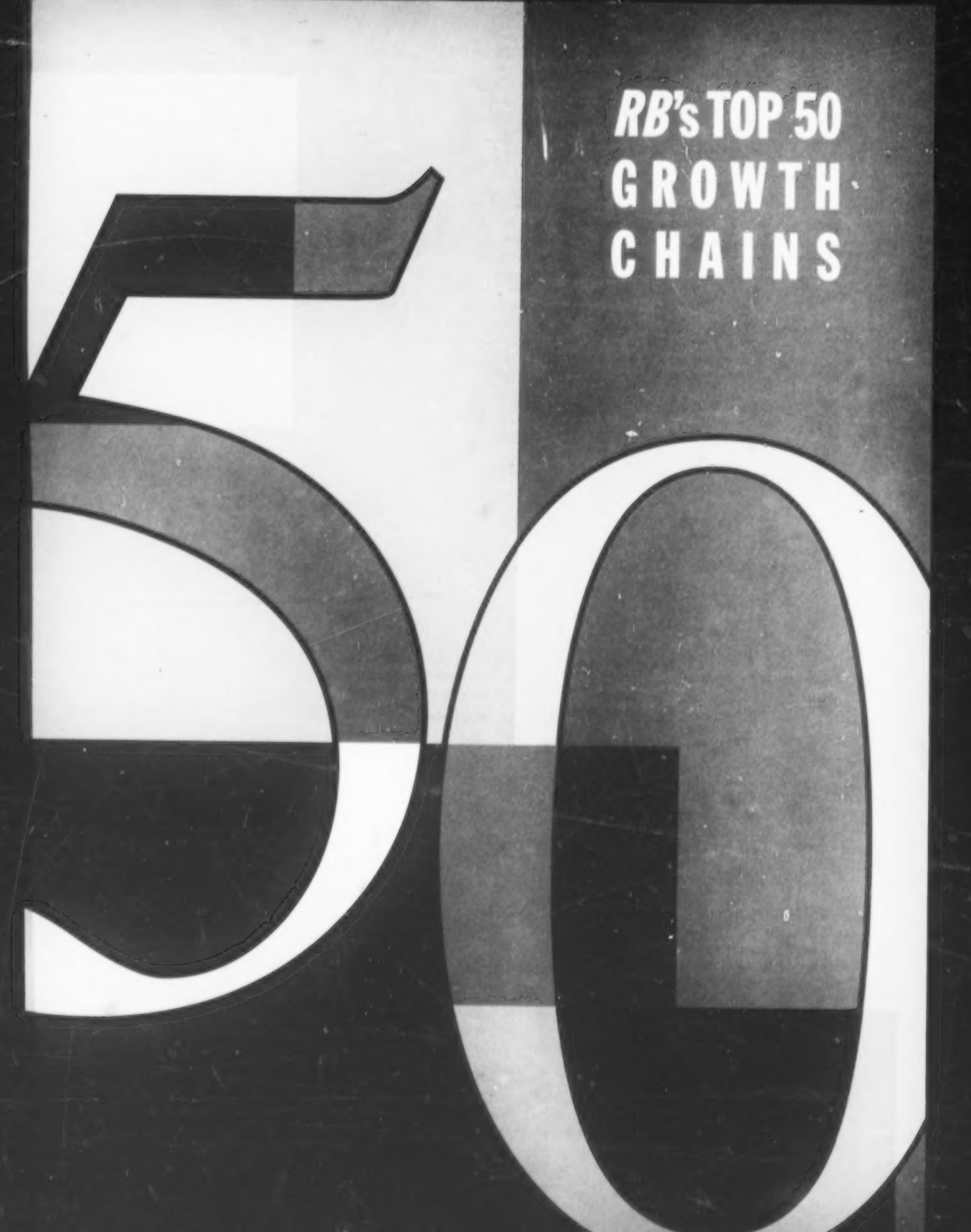
RB's TOP 50
GROWTH
CHAINS
50

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Recession dominated the concerns of most restaurants in 1991, but for the 50 fastest-growing restaurant chains in America, it was a word that rarely crossed their lips. Though total separate eating places eked out a 5% nominal sales increase in 1991, the Top 50 as a group achieved a 27.4% gain over 1990.

The secret to their success cannot be pinpointed to one simple formula. Indeed, the top growth chains are a diverse group when it comes to food and format: double drive-thrus, midscale Italian, upscale pizza, skinless chicken, down-home American, low- and high-brow steak, even Japanese noodles. The ties that bind them, simple as they may sound, are value, oftentimes convenience, and a range of choices.

"I see variety coming through loud and clear," says Ron Paul, president of Technomic Inc., which tabulates *RB's* annual Top 50 growth list. "There isn't

continued on page 98

BY MARILYN ALVA

TOP 50 GROWTH CHAINS

Ranked by percentage gains in sales

Sales Rank	Chain, Headquarters	% Sales Change 1990-91
1	**Outback Steakhouse**, Tampa, Fla.	174.0%
2	**Pudgie's Famous Chicken**, Woodbury, N.Y.	145.5%
3	**Checkers Drive-In**, Clearwater, Fla.	94.0%
4	**Hot 'N Now**, Kalamazoo, Mich.	51.6%
5	**Miami Subs**, Fort Lauderdale, Fla.	48.7%
6	**Hooters**, Clearwater, Fla.	46.7%
7	**Yoshinoya Beef Bowl**, Carson, Calif.	43.9%
8	**Taco Cabana**, San Antonio, Texas	39.2%
9	**Great Steak & Fry**, Hamilton, Ohio	39.1%
10	**T.K. Tripps/Rock Ola Cafe**, Greensboro, N.C.	37.9%
11	**Chevy's Mexican Restaurants**, San Francisco, Calif.	37.2%
12	**Old Country Buffet**, Eden Prairie, Minn.	35.1%
13	**Cracker Barrel**, Lebanon, Tenn.	34.2%
14	**Nathan's Famous**, Westbury, N.Y.	30.8%
15	**O'Charley's**, Nashville, Tenn.	30.2%
16	**Bertucci's Brick Oven Pizzerias**, Woburn, Mass.	29.3%
17	**Central Park**, Chattanooga, Tenn.	29.1%
18	**I Can't Believe It's Yogurt**, Dallas, Texas	28.8%
19	**California Pizza Kitchen**, Los Angeles, Calif.	28.6%
20	**Olive Garden**, Orlando, Fla.	28.0%
21	**Subway**, Milford, Conn.	27.3%
22	**Applebee's**, Kansas City, Mo.	26.9%
23	**Longhorn Steaks**, Charlotte, N.C.	26.2%
24	**Morton's of Chicago**, Chicago, Ill.	25.0%
25	**Chili's**, Dallas, Texas	23.8%
26	**Spaghetti Warehouse**, Garland, Texas	23.3%
27	**Little Caesar's**, Detroit, Mich.	23.2%
28	**Grady's American Grill**, Dallas, Texas	22.4%
29	**Red Robin**, Irvine, Calif.	21.6%
30	**Levy Restaurants**, Chicago, Ill.	21.3%
31	**Eat 'n Park**, Pittsburgh, Pa.	21.0%
32	**L & N Seafood**, Mobile, Ala.	20.7%
33	**Black-Eyed Pea/Dixie House**, Dallas, Texas	20.5%
34	**Max & Erma's Restaurants**, Columbus, Ohio	20.0%
35	**Spinnaker's**, Brentwood, Tenn.	20.0%
36	**Pizzeria Uno**, West Roxbury, Mass.	19.1%
37	**Rally's**, Louisville, Ky.	19.0%
38	**Cheesecake Factory**, Redondo Beach, Calif.	18.8%
39	**La Rosa's**, Davenport, Iowa	18.4%
40	**K & W Cafeterias**, Winston-Salem, N.C.	17.5%
41	**Old Spaghetti Factory**, Portland, Ore.	17.4%
42	**Jack's Hamburger**, Birmingham, Ala.	17.1%
43	**Cooker Bar & Grill**, Columbus, Ohio	16.9%
44	**Hard Rock Cafe**, Los Angeles, Calif.	16.7%
45	**Great American Cookie**, Atlanta, Ga.	16.4%
46	**American Cafe**, Laurel, Md.	15.2%
47	**K-Bob's Steak Houses**, Albuquerque, N.M.	15.0%
48	**Ruth's Chris Steak House**, New Orleans, La.	14.8%
49	**Acapulco**, Long Beach, Calif.	14.6%
50	**Huddle House**, Decatur, Ga.	14.6%

* Technomic Estimate. ** Company Estimate. Source: TECHNOMIC, INC.

U.S. System Sales ($ 000)		% A.U.V. Change	Avg. Unit Volume ($ 000)		U.S. System Units		% Unit Change	Unit Growth
1991	1990	1990-91	1991	1990	1991	1990	1990-91	Rank
93,400 *	34,084	0.7%	2,860	2,840	49	23	113.0%	1
98,200 **	40,000	0.0%	750	750	131	70	87.1%	3
70,000 *	36,083	9.5%	903 *	825	117	56	108.9%	2
52,000 *	34,300 *	0.0%	650 *	650 *	84	76	10.5%	35
49,000 *	32,951	-5.1%	835	880	79	49	61.2%	4
110,000 *	75,000	3.3%	1,860 *	1,800	71	50	42.0%	8
38,000	26,400	3.5%	745	720	51	44	15.9%	30
58,200	41,800	5.9%	1,800	1,700	42	29	44.8%	6
44,500 *	32,000	3.3%	465 *	450	105	87	20.7%	24
52,000 *	37,700 *	15.6%	2,080 *	1,800 *	25	24	4.2%	45
70,000 *	51,033	1.2%	2,600 *	2,569	32 *	24	33.3%	11
196,212	145,236	4.9%	2,040	1,944	114	94	21.3%	22
346,292	257,971	11.2%	3,247	2,920	117	97	20.6%	25
85,000	65,000	0.0%	1,000	1,000	74	54	37.0%	10
56,000	43,000	5.3%	2,000	1,900	36	31	16.1%	29
37,483	29,000	-2.7%	1,607	1,651	26	20	30.0%	12
43,000 *	33,300 *	3.3%	620 *	600	74	66	12.1%	34
85,000	65,990	7.1%	225 *	210	422	388	8.8%	38
45,000 *	35,000	2.0%	2,550 *	2,500	24	16	50.0%	5
706,745	551,985	2.1%	2,800	2,743	290	228	27.2%	14
1,400,000	1,100,000	7.7%	280	260	5,853	4,777	22.5%	18
289,600	228,200 **	-0.4%	1,675	1,682	191	160	19.4%	26
43,095	34,155	2.3%	1,982	1,938	29	23	26.1%	15
45,000 *	36,000 *	0.0%	3,000 *	3,000 *	17	12	41.7%	9
545,000 *	440,383	6.4%	2,320 *	2,180	260	223	16.6%	28
49,301	40,000	6.6%	2,593	2,433	20	14	42.9%	7
1,725,000	1,400,000	3.1%	505 *	490 *	3,650	3,173	15.0%	31
40,000 *	32,673	3.5%	3,665 *	3,540	14	11	27.3%	13
147,358	121,215	-1.5%	2,150	2,183	69	57	21.1%	23
97,000	80,000 **	8.3%	2,600 *	2,400 **	34 *	33	3.0%	48
96,800	80,000	15.9%	1,820	1,570 *	54	51	5.9%	43
77,000 *	63,800 *	0.0%	2,200 *	2,200	36	34	5.9%	42
149,865 *	124,172	-2.5%	1,530 *	1,570 *	98	80	22.5%	19
39,000	32,500 **	-2.5%	2,010	2,062	20	19	5.3%	44
36,000 *	30,000 **	0.0%	1,750 *	1,750	22	20	10.0%	37
140,769	118,169	-4.6%	1,538	1,613	96	85	12.9%	32
221,100	185,800	0.0%	870 *	870 *	333	297	12.1%	33
38,000 *	32,000 *	0.0%	8,000	8,000	5	4	25.0%	17
45,000 *	38,000	3.4%	900 *	870 *	54 *	49	10.2%	36
73,300	62,400	10.6%	2,875	2,600	26	24	8.3%	39
54,000	46,000	13.1%	2,000	1,769	27	26	3.8%	46
36,000 *	30,750 *	2.6%	800 *	780 *	50	41	22.0%	21
39,560	33,800	0.0%	3,200	3,200	15	12	25.0%	16
70,000 *	60,000 *	0.0%	7,000 *	7,000 *	11	9	22.2%	20
71,000 *	61,000 *	3.6%	228 *	220 *	330 *	280 *	17.9%	27
38,000 *	33,000 *	3.5%	2,380 *	2,300 **	16	15	6.7%	40
36,480	31,720 *	46.2%	760	520 *	48	61 *	-21.3%	50
70,000	61,000	6.4%	2,340	2,200	30	29	3.4%	47
83,161	72,539	1.3%	1,759	1,736	49	49	0.0%	49
74,500	65,000	-2.9%	364	375	207	195	6.2%	41

❶ OUTBACK STEAKHOUSE

Founders Chris Sullivan (l.), Tim Gannon (c.) and Robert Basham give unit managers a stake in the company.

PHOTOGRAPH BY BUD LEE

one thing or one ethnic food or one price point consumers are interested in." In fact, he says, "It's probably not what you do, but how well you do it."

Top 50 growth chains are ranked by percentage gains in U.S. systemwide sales. To be included, they must have systemwide sales in excess of $35 million and at least five units. Percentage sales gains are usually biggest when companies are still small. Paul says that's because "the smaller, new players respond quicker" to consumer wishes.

It might also be because some of the fastest-growing restaurant chains are seeking greater control of their growth by coming up with innovative ways to build new stores. They're doing more joint ventures, developing new forms of franchising agreements, even de-emphasizing franchise pacts altogether in favor of company owned restaurants.

The move away from traditional franchise pacts has been spearheaded by Outback Steakhouse, *RB's* number-one growth chain. The 50-unit chain strikes joint venture agreements with unit managers, giving them a 10% equity partnership in the restaurants they manage. "We have discovered," says Outback's chief financial officer Bob Merritt, "that the best incentive for a manager to do his job the right way is a piece of the action."

"When we started the company, we went into 50/50 contracts because we had such a limited amount of capital," he says. "We put up half of the capital, the manager put up the other half and was responsible for the day-to-day management of the market."

But Outback became a public company last year, raising more than $225 million in cash. "After we raised the money," Merritt says, "we stopped doing the 50/50 joint ventures in favor of a system in which we put up all the capital. The manager is still responsible for living in and developing the market."

Joint ventures, Merritt says, "enable us to attract managers who have 15 or so years of experience running multiple units in other companies. The caliber of manager we have been able to attract has been extraordinarily high, and that's been the key to our growth."

Wall Street seems to agree. Steve Rockwell, a restaurant analyst for Alex. Brown & Sons, Baltimore, believes Outback's growth prospects are substantial. "Their earnings have grown faster than my estimates and I believe they will sustain this growth," says Rockwell. The company has modest debt levels and a generous cash flow.

Company-owned units indeed play a key role in the Top 50. Checkers Drive-In, which has also raised capital through recent stock offerings, is de-emphasizing franchising and expanding its number of company-owned stores. And Hot 'N Now has stressed company-owned stores since PepsiCo acquired it two years ago. Hot 'N Now, an 84-unit chain, "is driven by the same company-owned growth philosophy that drives Taco Bell and most other PepsiCo subsidiaries," says spokesman Jeff Lightburn.

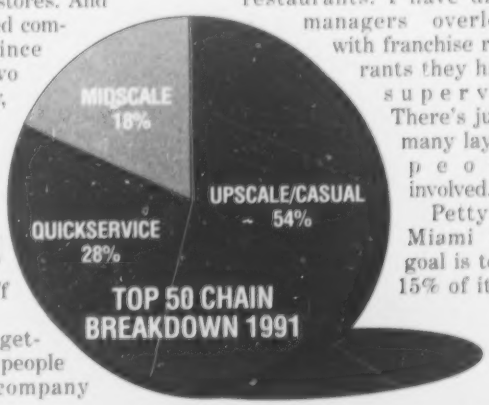
"We are capable of getting all the competent people we need to run our company stores," says Checkers chairman Herbert Brown. "That's one reason we have done only a few joint ventures and plan to stick with the company store concept." The company is, after all, cash rich having raised more than $70 million in stock offerings.

The majority of Checkers' 117 stores are prefabricated buildings placed on existing foundations. "The buildings are ready to open in 15 days. They save us as much as 20% in building costs," Brown says. Each building costs about $438,000, excluding land.

C. Ronald Petty, CEO of Miami Subs, predicts his company will enter into several joint venture developments in the next year. Most of them will be 50/50 deals. Petty says the company's joint-venture activity reflects a need for good management talent rather than capital.

"From my standpoint, joint ventures give me better supervision of the restaurants. I have district managers overloaded with franchise restaurants they have to supervise. There's just too many layers of people involved."

Petty says Miami Sub's goal is to have 15% of its sys-



CHARTS BY PETER NICEBERG

② PUDGIE'S

George Sanders spent years refining the skinless chicken operation before franchising in 1989.

PHOTOGRAPH BY THOMAS R. KOENIGES/NEWSDAY

tem operating under joint venture agreements in the next year. "Between company-owned stores, which will be about 35% of the system, and joint ventures, we will control half the system," he says.

The company's growth, Petty says, has come primarily from the conversion of other concepts. Four joint ventures with Rax involving conversions were completed in the last few months and Petty says he hopes to add about 90 units in the next year, bringing the chain total to 180 units. About 20 deals will be 50/50 joint ventures. Miami Subs has financed its recent growth with a $15 million private placement.

Many Top 50 chains are young, barely five years old in some cases. Yet, the people behind them are mostly experienced foodservice people who've paid their dues elsewhere. Outback, with a 174% increase in systemwide sales last year, is only five years old. Founders Robert Basham, Chris Sullivan, and Tim Gannon learned the ropes helping to run Bennigan's in the mid-1970s and early 1980s, with Basham and Sullivan then moving on to open their own Chili's restaurants in Florida and Georgia. Gannon, meanwhile, assisted Popeyes founder Al Copeland in launching his dinnerhouse restaurant, Copeland's, as well as other independent restaurant ventures of his own.

"We felt there was a niche for steak and prime rib," says Basham. Noting that the budget and high end were already taken, he says he and his partners decided to commit to the middle of the road. "No one significant major player was in the mid range."

Being in the casual segment—with an Aussie theme as a marketing tool—didn't hurt. As foodservice consultant George Rice, chairman of GDR Enterprises Inc., says, "Casual dining remains the highest growth in the marketplace." Indeed, 27 of the Top 50 chains operate upscale/casual concepts.

Outback is clearly one of them. Its steak dinners start at $10.95; the most expensive is $16.95.

Those behind other chains in the top five are no slouches either. Checkers Drive-In president Jim Mattei, a former Wendy's franchisee, teamed up with Brown, a former drug store and furniture chain owner from Florida.

Another double-drive-thru in the top five, Hot 'N Now, has giant PepsiCo behind it. PepsiCo also recently put money behind California Pizza Kitchen, the 19th ranked growth chain. And Miami Subs' Petty was once president of Burger King.

Pudgie's (No. 2 in the Top 50) key to success may be its skinless chicken with picnic-style side dishes, but founder George Sanders labored for nearly 12 years refining his operations before franchising in 1989. The carryout and delivery chain grew from seven stores in 1990 to more than 130 in mid-1992. "This is not a short-term glitzy person," maintains Steve Wasserman, Pudgie's CEO, of Sanders.

Scanning the top 10, one thing seems clear: Double-drive-thrus are hot. Besides Checkers and Hot 'N Now, the Mexican-themed Taco Cabana is new to the top 10.

The largest double-drive-thru chain, seven-year-old Rally's, slipped on this year's growth list—to No. 37 from No. 3 in 1990—but the chain is still cranking out new units. As the chain gets larger, percentage growth decreases even if store openings continue at the same rate.

Factoring in speed and value, the giants like McDonald's and Burger King are getting a run for their money from the upstart double-drive-thrus, which offer lower prices and faster service. "McDonald's no longer provides low-priced hamburgers fast," says Rice. "The double-drive-thrus are coming in to fill the void behind McDonald's, Burger King, and Wendy's."

Fact is, double-drive-thrus represent a return to fast food's origins. Rally's, for example, sells a fully dressed burger with fries and a 16-oz. soft drink for a mere $1.97. Checkers sells quarter-pound burgers at an "everyday" price of 99¢, usually in less than 30 seconds from the time a car drives up to one of its windows.

"The public," says Ed Binzel, Rally's senior vice president of franchising, "is

WHO GAINED THE MOST DOLLARS?

	1991	1990	Change
Little Caesar's	$1,725,000	$1,400,000	$325,000
Subway	1,400,000	1,100,000	300,000
Olive Garden	706,746	551,985	154,760
Chili's	545,000	440,383	104,617
Cracker Barrel	346,292	257,971	88,321
Applebee's	289,600	228,200	61,400
Outback Steakhouse	93,400	34,084	59,316
Pudgie's Famous Chicken	98,200	40,000	58,200
Old Country Buffet	196,212	145,236	50,976
Rally's	221,100	185,800	35,300

WHO OPENED THE MOST UNITS?

	1991	1990	Change
Subway	5,853	4,777	1,076
Little Caesar's	3,650	3,173	477
Olive Garden	290	228	62
Checkers Drive-In	117	56	61
Pudgie's Famous Chicken	131	70	61
Great American Cookie	330	280	50
Chili's	260	223	37
Rally's	333	297	36
I Can't Believe It's Yogurt	422	388	34
Applebee's	191	160	31

For more information on the Beef Council circle number 53

❸ CHECKERS

President Jim Mattei (foreground) and chairman Herb Brown are behind the wheels of the fastest-growing double-drive-thru chain in the U.S.

saying, 'that's what those [fast-food] guys used to be.'"

Percentage gain figures for these chains are impressive: Checkers scored a 94.5% sales gain, Hot 'N Now 51.6%, Taco Cabana 39.2%, and Rally's 19%.

On the other side of the maturing burger chains is the diverse casual-dining world of full service to which customers can trade up. Although they've skipped down the ranking line because their base got so much larger, casual full-service chains like Olive Garden, Chili's, and Applebee's continue to forge ahead in unit openings and dollar gains. The three are in the top 10 when sheer numbers of new units and dollars are added up. "We had the most new openings *ever* in the last year," says Olive Garden spokesman Charles Tate.

Olive Garden's continued strong growth, along with Spaghetti Warehouse and the Old Spaghetti Factory, indicates that the Italian segment is still in a growth mode.

So is the pizza category. Two new pizza chains cropped up on this year's growth list: Bertucci's Brick Oven Pizzerias and California Pizza Kitchen. Thus, brick oven and designer pizza joins a relatively older deep-dish concept, Pizzeria Uno. Says Technomic's Paul, "Pizza is a broad product group. It's not just fried chicken, if you will."

Indeed, an all-fried chicken concept is virtually nowhere to be seen on the Top 50 chart. Pudgie's is about the only one, but it offers both fried and roasted chicken cooked without the skin.

Still, back-to-basics American fare with value pricing lands a solid place on the growth chart, as evidenced by Old Country Buffet and Cracker Barrel. They posted 35% and 34% sales growth rates, respectively.

Moving up the charts from last year are other all-Americans: Hooters (from 18 to 6), Longhorn Steaks (40 to 23), and K&W Cafeterias (50 to 40).

Newcomers include the Japanese-style eateries in California known as Yoshinoya Beef Bowl (ranked 7th), Great Steak & Fry (9), T.K. Tripps-Rock Ola Cafe (10), Nathan's Famous (14), Central Park (17), Morton's of Chicago (24), Grady's American Grill (28), Eat 'N Park (31), and Hard Rock Cafe (44).

Companies that disappeared from this year's top 50 include: Soup Exchange, Ruby Tuesday, Ark Restaurants, Au Bon Pain, Cinnabons, Sbarro, and Souplantation.

"Many companies hit the wall when they are growing," says one analyst who follows a number of publicly traded chains. Sbarro is a prime example. The family-controlled chain had been a growth leader in recent years; in 1990 it was the 15th fastest-growing chain.

Sbarro is now in a trenching mode after having added new field managers to handle expected growth that didn't materialize. Traffic in malls, where many units are located, is down and other chains with value menus have been competing with Sbarro in the malls. Its stock plunged nearly 30% after first-quarter earnings dropped 23%.

Some analysts attribute Sbarro's problems to inadequate management and the fact it has outgrown the entrepreneurial bent of its founders, who still run the company.

But Sbarro's fall indicates something more. In recent years, the growth in the number of new units has exceeded the growth in customer traffic. That means operators must steal customers from each other. Even if consumer demand is present, today's climate requires that business fundamentals be strong in all areas. "In the '50s, '60s, and '70s you had to be pretty dumb to screw up," says Rice. "You could get away with mistakes."

Not today. Operators must be smart enough to scout out new consumer demand, and even smarter to deliver the goods over time.

Still, as Rice says, "There's nothing today that's going to end up with thousands and thousands of units. Those days are over."

THE BASE GOT BIGGER

The 10 leading percentage gainers in new store openings

	1991	1990	Change
Outback Steakhouse	49	23	113%
Checkers Drive-In	117	56	109
Pudgie's Famous Chicken	131	70	87
Miami Subs	79	49	61
California Pizza Kitchen	24	16	50
Taco Cabana	42	29	45
Spaghetti Warehouse	20	14	43
Hooters	71	50	42
Morton's of Chicago	17	12	42
Nathan's Famous	74	54	37

WHAT A DIFFERENCE A YEAR MAKES

Not one of 1990's top 10 percentage sales gainers made it to last year's top 10

Rank	1990	1991
1	Chevy's Mexican Restaurants	Outback Steakhouse
2	Applebee's	Pudgie's Famous Chicken
3	Rally's	Checkers Drive-In
4	Souplantation/Sweet Tomatoes	Hot 'N Now
5	I Can't Believe It's Yogurt	Miami Subs
6	Olive Garden	Hooters
7	Pizzeria Uno	Yoshinoya Beef Bowl
8	Subway	Taco Cabana
9	Ruby Tuesday	Great Steak & Fry
10	Cracker Barrel	T.K. Tripps/Rock Ola Cafe

GOOD NEWS FOR HARD TIMES

Low prices spurred big sales gains last year

BY MARILYN ALVA

When the going got rough, people in Pittsburgh raided the Eat 'n Park for honeybuns and strawberry pie. In North Carolina, they headed for the K&W Cafeteria for some country fried steak and biscuits. In Portland, it was over to The Old Spaghetti Factory for spaghetti and meat sauce.

Hard times have been good news for Motherhood and apple-pie restaurants. As paychecks got smaller or vanished, and consumer confidence took a leap out the window, people who could stormed well-known restaurants serving food from the good old days.

The top six percentage gainers in average unit volumes in 1991, when the country was in the deepest throes of the recession, were family-style restaurants serving big portions of American food—nothing fancy—at low prices. Their names: K-Bob's Steak Houses, Eat 'n Park, T.K. Tripp's, Rocka Ola Cafes, The Old Spaghetti Factory, Cracker Barrel, and K&W Cafeterias.

"With less than a $4 check average, our competition is the grocery store," says Gary Allred, president of Winston-Salem, N.C.-based K&W Cafeterias, where each unit makes everything from scratch twice a day. The food choices: 18 kinds of salads, 14 entrees, 12 kinds of pies, and a half-dozen different home-baked breads.

Allred says customer counts are surging; a K&W restaurant often feeds 2,500 people a day. "Our customers are getting younger," adds Allred. "Young families are coming to us, and working mothers with kids." Average unit volume in 1991: nearly $2.9 million.

"Our customer counts have never been higher," adds David Cook, senior vice president of The Old Spaghetti Factory, which has been dishing out plates of spaghetti and a growing number of pasta dishes since 1969. "People trade down when times are not so good." Restaurants average about 800 customers a day.

The Pittsburgh institution, Eat 'n Park, experienced such tremendous customer growth in 1991 that executives may wish that better days hadn't come along. "We're not now at the magnitude we were when people were trading down," says one. "Maybe customers are trading back up." Still, business is high volume.

Eat 'n Park began as a carhop chain 42 years ago and switched to family-style sitdown in the mid-1970s—after McDonald's arrived. Restaurants serve full breakfasts 24 hours a day, soups, salads, burgers, hot turkey sandwiches, and full entree meals headlined by such items as liver and onions, Salisbury steak, and char-grilled salmon. Average check: $4.35.

In the South, T.K. Tripps and Rock-Ola, owned by Greensboro, N.C.-based T.K. Tripps Inc., also menus moderately priced casual American fare on the order of ribs, ham steak, soups and salads, and pastas. Both have separate children's menus. Rock Ola restaurants, with its juke-box music and frequent birthday parties replete with balloons, is the more casual of the two relatively similar concepts. Average unit volumes jumped 13%, to about $2 million.

Cracker Barrel's menu is pegged to a rural Southern country theme at low prices: dinner plates of meat loaf, hickory-smoked pork barbecue, and chicken n' dumplings are only $2.85. And that comes with two vegetables and biscuits or corn muffins.

A succession of boycotts by gay activists against Lebanon, Tenn.-based Cracker Barrel for its firing of some homosexual employees may have dumped rain on the party, but sales continue to surge. Average unit volumes rose more than 11% last year, to a rousing $3.2 million. Unlike other family chains rooted in communities, most Cracker Barrels are situated off interstate highways to draw in travelers.

K-Bob's is out of bankruptcy now, and store closings before new owner Ed Tinsley acquired the family steakhouse chain last year have left a small core of units in Texas, New Mexico, Kansas, and Colorado. The closing of poor-performing restaurants made the average unit volume percentage increase inordinately high, but the fundamentals of those in place are now stable. Tinsley, a former franchisee for the Schlotzsky's sandwich chain, has recently established a national distribution program and additional marketing support pegged to localities.

Most of these unit volume leaders are button-down operations-oriented machines. K&W doesn't even employ marketing people. "I follow pretty much what my daddy told me: The best advertising is on the plate," says Allred, whose father founded the first restaurant in 1937.

"We stick to our knitting," says Old Spaghetti Factory's Cook. "We tinker a little, but our concept and training is pretty well thought out. Our system is simple. We pride ourselves on being good operators."

"Consistency," adds an Eat 'n Park executive, "is our number-one goal."

WHOSE STORES GAINED THE MOST

The Top 10 gainers in average unit volume

	1991	1990	Change
K-Bob's Steak Houses	$760,000	$520,000*	46.2%
Eat 'N Park	1,820,000	1,570,000*	15.9
T.K. Tripps/Rock Ola Cafe	2,080,000	1,800,000*	15.6
Old Spaghetti Factory	2,000,000	1,769,000	13.1
Cracker Barrel	3,247,000	2,920,000	11.2
K & W Cafeterias	2,875,000	2,600,000	10.6
Checkers Drive-In	903,000*	825,000	9.5
Levy Restaurants	2,600,000*	2,400,000**	8.3
Subway	280,000	260,000	7.7
I Can't Believe It's Yogurt	225,000*	210,000	7.1

* Technomic ** Company Estimate

CHEAPER GOODS HAVEN'T HURT

Costs have been down for a while, and they could stay that way

BY PETER McKENNA

Chains that have forged relatively high growth in the face of recession have been helped along by one of the few good economic trends to come along in a while: declining cost of goods. For more than a year, the prices restaurants pay to their suppliers for a wide range of food and supplies have been dropping precipitously. The result has been improved gross margins for many restaurants.

"To understand what lies behind the price declines, just pick up an economics textbook and read the section on supply and demand," says Caroline Levy, a restaurant analyst for Shearson Lehman Brothers in New York. "Restaurants buy less food during a recession, some of them go out of business, and fewer new restaurants open for business. But there is still a large supply of food and supplies, so the prices have to go down."

Restaurant purchasing agents say the rise and fall of food and supply generally balance each other out during good economic times. But during the past 12 months or so, recession has caused a steady and somewhat unusual drop in nearly all items important to restaurants.

"We see a softness in almost every area," says George Cook, senior vice president of purchasing for Checkers Drive-In. He says he's paying 5% less now for paper cups alone.

Aaron Spencer, CEO of Uno Restaurant Corp., the parent of Pizzeria Uno, says favorable product costs in 1991 made it possible for the company to keep cost of sales the same despite the roll-out of a new high-value menu and larger pizzas.

And analysts attribute lower food costs as one reason Outback's income from operations, as a percentage of revenues, is increasing.

"The price drops have been very, very favorable for most of the restaurants I follow," Levy says. "It has been an across-the-board drop in food, paper, energy, and most other products. The only costs that have not gone down or registered just slight increases are for fish and cheese. Even labor costs have been falling."

The bottom line results of the declines, Levy says, "have been dramatic in some cases." Old Country Buffets, she points out, had a three-point improvement in gross margins in the first quarter of this year. Chili's parent Brinker International has had a consistent one-point improvement during the last year.

The prices restaurants pay for fish and cheese have indeed been among the few items registering substantial price increases. From April 1991 to April 1992, fish jumped 13.4% and cheese went up 6.2%, according to the U.S. Department of Commerce. Other items showed modest increases, including sanitary paper products such as napkins, towels, and toilet tissue, which went up 2.3%. Paper cups and liquid-tight containers went up 0.6% while ice cream and frozen dessert prices inched up 1.1%. Bakery products, including bread, cake, and pies, went up 4.1%.

"For restaurants, the happy fact is that items that increased in price did so only marginally," says Craig Howell, an economist with the U.S. Bureau of Labor Statistics. "There also seems to be several cases in which an increase is balanced by a decrease. Alcoholic beverages went up 1.7%, but soft drinks fell 1.8%. The rates charged to commercial electric power users, such as restaurants, went up 0.9%, while the price of natural gas for commercial customers went down 1%. Restaurants that use home heating fuel had a 0.3% drop in price."

Another happy fact is that foods bought in great quantities by restaurants have shown the sharpest price drops. In the April to April period, hamburger prices dropped 8.8% and pork fell 17.4%. Veal and beef declined 5.5%, other red meat products fell 4.7%, and USDA Choice beef products fell 5.5%. Poultry, chicken, and turkey prices fell 1.5%; fresh and dried vegetables fell 13%. Fruits and melons registered the steepest drop of all, a whopping 35.9%. Fats and oils fell 2.4% and flour fell 0.5%.

Chuck Thienpont, director of foodservice for Hartwick College, tracks prices restaurants pay to wholesalers for a range of meats, fresh produce, and canned and frozen commodities. He's found "a fairly substantial drop in the whole basket of items I follow. For the first two quarters of this year, the average price paid by a restaurant buyer for all these items together was down by 6%."

To the benefit of restaurants, the oversupply of product and declining demand has produced an intensely competitive market for food producers and suppliers. "Our food prices," says Checkers' Cook, "have dropped several points over the last year, particularly beef and bacon prices, which have shown truly dramatic decreases. The result has been that margins have tightened for our suppliers and distributors. They are fighting to keep our contract, which means they are willing to lower prices on just about everything."

Some chains are locking in today's low prices for the future by squeezing the best prices out of their suppliers now. Pizzeria Uno, for example, was able to lock in a long-term contract for flour and thus avoided a subsequent increase in wheat prices.

"We invite bids on certain items on a yearly or once-every-two-years basis," says Charlie Whelan, a purchasing agent for VICORP, the parent company of Village Inns and Bakers Square. "Typically, if we have seven or eight vendors who bid on something, we find their prices to be all over the board. They are hungry for our business, and we end up getting the best possible prices on the 20% of the items that make up 80% of our costs."

VICORP also takes market positions in commodities such as beef, chicken,

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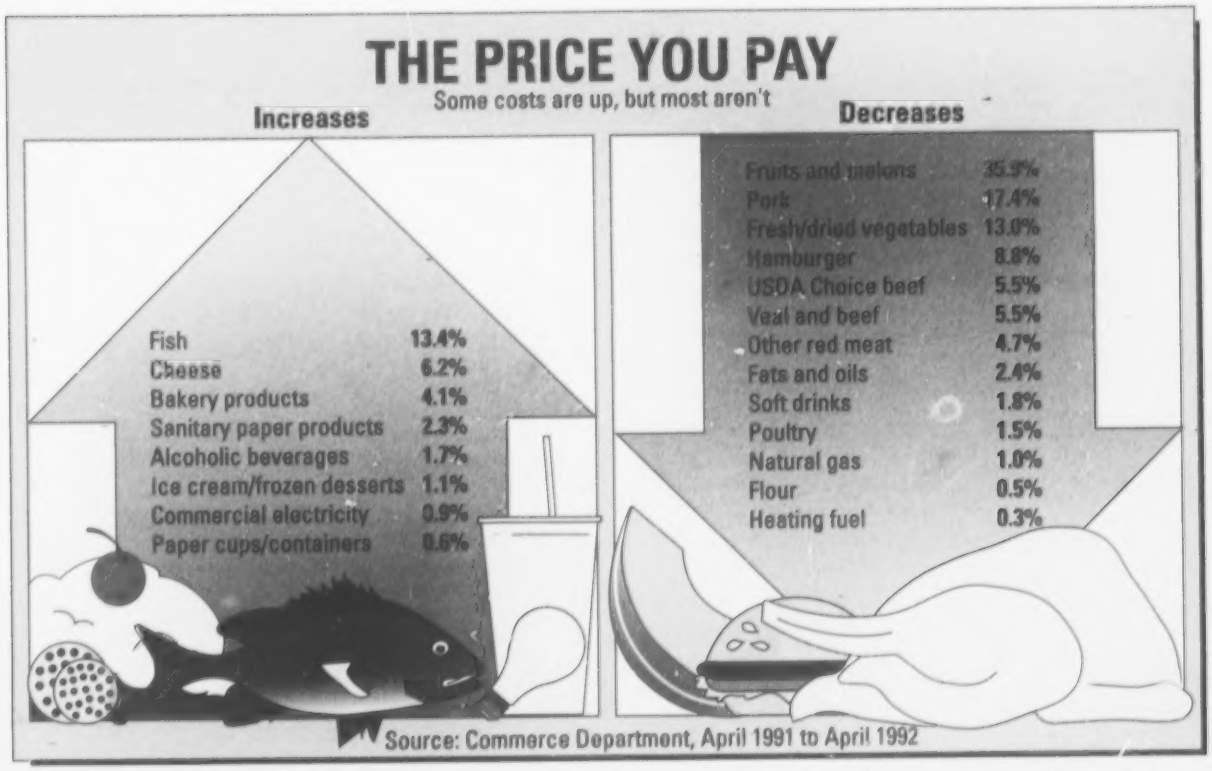
Restaurant managers say their biggest fear is that food prices will hit bottom and begin to rise



and oils. "The commodities market has been driving a lot of the improvement in our margins," Whelan says. "It has been very favorable for us to take these positions."

The price flexibility VICORP has generated through its bid schedule and market positions has also helped the company's fiscal planning. "The operating plan for this fiscal year is trending exactly as we forecast," Whelan says. "We know exactly where our food costs are going to be. We saw lower food costs last year, and they certainly are not going to be higher this year. This is a great advantage for us."

Another advantage of the oversupply and tremendous competition currently driving the food market, Whelan says, is that no single vendor has been able to capture a market on individual products. "No vendor has been able to put us at a disadvantage," he says.

Not all restaurant chains are experiencing such a multitude of benefits from lower food and supply prices, however. "Our pricing is done on a regional and corporate basis, so it's hard to determine the overall effect of the drop in food prices," says Joe Brennan, senior regional director of the Marriott Corporation. "Our margins are affected by so many different markets. Some commodity prices have gone down for us, but other expenses have gone up, particularly transportation and packaging costs. We also try to maintain the quality of our food product by purchasing expensive food items, which tends to keep us on the high end of values. It's still a very volatile market for us."

Meryl Berry of Bob Evans Farms says his company has experienced "a mixed bag of price movement, which has had offsetting implications for our business. We are doing a lot more with fresh fruits and vegetables to take advantage of the drop in price, but other items have gone up. I'd like to say we've enjoyed the decline in food prices, that it's improved our margins, but I can't." On the other hand, steep declines in pork prices last year amounted to a windfall for the chain. It managed to save $1 million a month on pork alone.

Restaurant managers say their biggest fear is that food prices will hit bottom and begin to rise. "They are looking ahead and saying, 'My God, costs can only go up from here,' " says Shearson's Levy. "But the reality is that there is absolutely no sign of upward pressure on food prices. Some companies, like VICORP and Pizzeria Uno, have locked in prices, so they will be protected even if the economy improves and prices begin to turn. They have developed pricing flexibility they will be able to pass on. I tell restaurant people not to worry about food prices, not for at least six months."

Checkers is not the least worried. Cook sees costs coming down further and another executive at the chain says, "The way we view it, there is no bottom." **RB**

CONVENIENCE STORES

MARKET SEGMENT REPORT

The number of stores decreased last year by 2.3%.

By Rona Feldman

Emerging from a difficult few years, the convenience store industry remains troubled. The largest convenience store chain, 7-Eleven, is in the midst of restructuring management a year after coming out of bankruptcy protection with new owners. Number two chain, Circle K is following a similar route; at press time, the bankrupt company agreed to be purchased for $375 million by an investor group. Houston, Texas-based National Convenience Stores, parent of Stop & Go, is hoping to emerge from Chapter 11 itself by early next year, as are some smaller, regional players like Happy Food Stores of Oklahoma City, Okla. Other chains are coping with an oversaturated market by consolidating, shaking a number of stores and executives from the family tree.

In its 1992 State of the Industry Report, the National Association of Convenience Stores (NACS) of Alexandria, Va., verified that the number of convenience stores decreased last year by 2.3% to 69,600 stores. "The industry continues to shed unproductive stores at about the same rate as it has for more than 20 years," says NACS president and CEO Kerley LeBoeuf. "That fact, when coupled this year with a lower rate of new construction, are clear signs of a maturing industry."

Sales and profitability, however, were strong in 1991. Due in great part to a record 26% increase in gasoline sales, total industry sales rose 0.8% to $75.1 billion. Sales per store rose in 1991, 6.4% for gasoline and 1.4% for merchandise (including foodservice). Average checks rose 15¢ to $2.45. The industry only broke even in terms of profits, but that's a vast improvement from 1990's loss of $149 million.

Sheetz' MTO (Made To Order) foodservice program garners 28% of inside sales in the stores.

No matter what's going on behind the scenes, what consumers see of convenience stores hasn't changed a bit. They see centrally located, one-room, one-story buildings with large parking lots, and often a few gas pumps out front. Inside, they see piles of newspapers, shelves of cigarettes, aisles of groceries in miniature packages and, frequently, fountains and urns from which they can take their own soft drinks and coffee. Hot dogs, donuts,

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sandwiches and sometimes fried chicken can be gotten quickly for take-out consumption.

Foodservice—usually in this limited guise—continues to be a growing part of the convenience store industry. Operators find that, although making sandwiches requires far more labor than putting a pack of cigarettes and matches on the counter, the profit margin is so much higher for foodservice than for traditional items that it's worth the cost.

Operators find that, despite the higher labor costs involved, foodservice is a big profit generator.

"It takes a lot of labor to provide customers with good, quick service," says Jeff Wild, director of foodservice for Sheetz, Inc. "We've upgraded our sanitation efforts and had all our managers go through sanitation training with the Department of Agriculture." But with foodservice grossing a 60% profit margin (before labor and expenses) versus a 30% margin for Sheetz' other products, Wild says the company still comes out way ahead.

According to statistics from NACS, foodservice profit margins in 1991 ranged from 34% for deli services other than sandwiches (such as prepared salads) to 71% for hot beverages. The profit margin for fresh (versus frozen) sandwiches was 46%. Top-seller tobacco, by contrast, grossed only a 25% profit margin, while second-biggest-seller beer grossed 24%.

Foodservice is convenience stores' third biggest seller industry-wide, capturing 12.1% of merchandise purchases, according to NACS. Only tobacco (24.9% of sales) and beer (12.7%) are bigger sellers.

Location, of course, has everything to do with a foodservice program's success, and convenience stores in rural areas tend to play up foodservice far more than those in big cities. Southerners have supped in-house on Jr. Food Mart's Creole fried chicken for 17 years, but neither the company's extensive menu nor its seating would have worked in cosmopolitan areas, admits director of advertising Gene Clark. "We're not going to go into metropolitan areas and compete with fast feeders," Clark explains. "We target small town America, where maybe there's one McDonald's or one Pizza Hut."

Elliot Deutsch, vice president and general manager of Food Spot Stores, whose 40 stores are in Florida's populous Dade and Broward counties, agrees. "We can't take advantage of foodservice opportunities like chains in rural areas can," he says. "In rural areas, the convenience store is like the center of town and you can put almost anything in. We're in a built-up market where there's a Pizza Hut, Domino's, or Colonel Sanders on almost every corner. They specialize in foodservice and we can't compete. We've got to concentrate on more conventional items to generate our margins."

The convenience store industry

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Fas Mart promotes its "What's Cookin' " foodservice program on exterior signage.

CONVENIENCE STORES

MARKET SEGMENT REPORT

changes slowly, but has begun taking advantage of new marketing tactics to increase foodservice sales. Many chains have found that creating brand names for their foodservice programs helps portray a quality image. Houston, Texas-based Shell Oil, for instance, is betting that graphics and packages labeling its Food Marts with the secondary tagline ETD —Experience The Difference—will market its stores not only to new customers but also to potential franchisees.

Taking the branding concept further, some chains have even hooked up with national restaurant chains, figuring that selling nationally known products would bring in more customers than unfamiliar names. Dunkin' Donuts and other donut chains have had kiosks in convenience stores for years, but now Pizza Hut, Mrs. Fields, and Godfather's are also reputedly in tests. Following the lead of Stop & Go, Wawa Food Markets is now testing Pizza Hut and Taco Bell stations in its stores.

Branding may have a future in convenience stores, predicts T.C. Godwin, chairman of the NACS and president of T-Mart Food Stores. "If you're going to butt heads against a burger place," he says, "why not become a franchisee and have them share a spot in your store? That would open up opportunities for all parties."

Traditionally large sellers of soft drinks, coffee, and beef jerky, convenience stores are also becoming a place to pick up a healthier lunch—perhaps a turkey breast sandwich and a tossed green salad. Since offering light tuna and boneless, skinless chicken breast sandwiches, Daybreak in Delafield, Wis., has been able to attract more white-collar customers. These same consumers often buy expensive, attractively packaged juices and mineral waters with their light purchases.

The healthier meals are selling to c-stores' traditional blue-collar base as well as to the occasional white-collar customer. "I'm convinced that people eat what they want," says Jennie Jones, director of marketing for the Fas Mart chain. "I try to appeal to all segments. I don't say, 'I'm across the street from an office building, and therefore I'll sell croissants and salads.' Truck drivers buy salads, and even broccoli au gratin. You can't categorize convenience store customers in terms of eating habits at all," Jones claims.

All sales—including those of healthy foodservice items—are gasoline-driven at Jr. Food Marts. "The hard hat has to have gas for his truck, and the white-collar guy has to have gas for his car," says Gene Clark. "Therefore, our customer base is mixed."

As the nation's population becomes increasingly ethnically diverse, convenience stores have begun catering to local tastes. Few chains in rural Pennsylvania have gotten any more foreign than installing a nacho machine, but in Miami, c-store customers can get a small taste of Cuba. Food Spot Stores in heavily Hispanic areas brew Cuban coffee to order and carry a line of *pastalitas*, pastries filled with guava and cheese. 7-Eleven has tested rolled burritos and egg rolls that cook on a roller grill.

A few years ago, fried chicken seemed like it would become the convenience store industry's next standard item; operators nationwide began testing it. Today, some operators still garner big business from fried chicken sales, but those with less encouraging results have dropped out of that arena. "Chicken entails a huge commitment of labor," explains John Callanan, staff writer at *Convenience Store News*. "It's difficult to handle because of freshness and safety issues, and it doesn't keep well. So now only operators who have the necessary commitment to chicken still sell it."

Little more than a year after emerging from a bankruptcy reorganization, Dallas-based Southland Corporation is testing improved foodservice programs in its 6,300 domestic 7-Eleven stores. Southland has another 7,000 convenience stores around the globe.

In the Austin, Texas, market, 7-Eleven has reduced clutter in its stores by removing most freestanding displays and cleaning up signage. All slow sellers store-wide were eliminated and new ones tested in their place. In the foodservice area, fresh produce was added to the menu—to encouraging results. Many customers grab an apple, banana, or bunch of grapes with their sandwiches, adding incremental sales.

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TOP TEN PRODUCT CATEGORIES

As a percent of merchandise purchases

1. Tobacco	24.9%
2. Beer	12.7
3. Fast Food	12.1
4. Soft Drinks	9.1
5. Milk & Milk Products	5.6
6. Candy & Gum	5.2
7. Salty Snacks	4.6
8. Groceries	4.4
9. Publications	4.3
10. Bread & Cakes	3.7

SOURCE: National Association of Convenience Stores, 1992 State of Industry Report

CHARTS BY SHARI HENG

With 12% of sales, fast food is already a big seller for c-stores, second only to tobacco and beer.

The produce has helped bring more women shoppers into the stores. The only challenge, notes national advertising manager Marva Cathey, has been anticipating demand, since spoilage is rapid. The chain recently began donating unsold produce to charity.

Except in the Florida, New York and Washington, D.C., markets, foodservice has not been a focus at 7-Eleven; that may change soon. The company is exploring the possibility of making sandwiches and salads in regional commissaries for delivery to stores. "That would guarantee freshness, timeliness of delivery and economies of scale," Cathey explains. "The sandwiches would have a high-quality taste, and we would know that they never left the commissary more than four hours old."

CORNERSTONE. Beginning as a two-for-99¢ hot dog promotion in 1981, foodservice has grown into a "cornerstone" of business for Sheetz, Inc., of Altoona, Pa., according to director of foodservice Wild. Four years ago Sheetz introduced its MTO—Made to Order foodservice program, and customers at its 163 stores, most in central and western Pennsylvania, have since learned to order, for example, a ham and cheese MTO instead of calling the sandwich a sub.

Looking to distinguish itself from the competition, Sheetz promotes its sandwiches as high quality by marketing the brand of meat used, and provides a more bountiful sandwich than competitors. Sub rolls are being baked in-house in a four-unit test. Television ads, which feature food shots, use the tag line, "We make it good for you."

Sheetz complements its sandwich business with a selection of salads. Salads are currently made to order from ingredients that are cut up in the store; Wild is currently researching the advantages of buying salads prepared elsewhere.

Breakfast accounts for 40% of sales at Fas Mart, but stores also sell fried chicken prepared in-store, sandwiches, salads, and hot entrees.

Since the MTO rollout—completed two years ago—foodservice has shot to the top of Sheetz' sales charts. Foodservice accounts for 28% of sales inside the store (outside sales refer to gasoline-related purchases), from only 5% before the MTO introduction. Foodservice also accounts for 40% of in-store profits.

Wild continues to explore new foodservice options. He's looking into hooking up with a national pizza restaurant chain; he's also considering offering an MTO pizza. Made-to-order nachos are in test. "MTOlé" customers are given their choice of chips with cheese, chili sauce, sour cream, onions, and jalapeños.

While some convenience store chains with strong foodservice programs find seating a profitable investment, Wild says seats don't work well for Sheetz. "If you're going to sit in an establishment, you're tying up a parking space out front," he says. "And that's critical to us."

He is trying to lure customers in for take-out and other purchases, though. Last fall, Sheetz began offering 10-oz., 16-oz., and 20-oz. coffees for 49¢; six months later the price rose to 59¢. According to Wild, 55% of take-out coffee buyers in the chain's market area buy their coffee at Sheetz. That number had previously been 45%. "The coffee is still profitable for us," Wild explains, "and any time we bring more customers into the store we have the opportunity to sell more merchandise."

Fas Mart, a 42-unit chain based in Mechanicsville, Va., has built breakfast into one of its stores' biggest sellers, accounting for 40% of total sales. Up to 150 customers per store order bacon-and-cheese croissants and other breakfast sandwiches every morning. The sandwiches are made before the rush to ensure quick service.

Fried chicken, too, is big business for Fas Mart's "What's Cookin' " foodservice program, which features seating in

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Foodservice profit margins range from 34% for delis to 71% for beverages.

most stores. The product, which is prepared fresh throughout the day, sells regularly from 10:30 a.m. to 7:30 p.m. Fas Mart buys the chicken in preportioned, gas-packed, 32-piece packs. Employees wash, bread, and fry the chicken every hour and fifteen minutes, since that's the longest the product will hold well. New beer-battered chicken tenders, prepared from frozen product, have done well in initial tests.

Instead of preparing sandwiches to order, Fas Mart makes 10 standard varieties in each store daily and stocks them in a chest-style glass case. (A change to chest-style cases from sliding door cases increased sandwich sales at least 30% per store, according to director of marketing Jennie Jones.) Standards, which vary by market, include tuna salad and bologna. Specialty sandwiches such as chicken Parmesan and light chicken complement the line.

Other What's Cookin' selections include tossed salad, salad with marinated chicken strips, and hot entrees such as macaroni and cheese.

In one rural store, a more expansive foodservice program has boosted sales 10%. In this store, sandwiches are made to order from meats and cheeses displayed in a 6-ft. holding cabinet, and meals are served on china instead of disposables.

C-stores in rural areas tend to play up foodservice more than big-city units because of less fast-food competition.

In all stores, Fas Mart is trying to increase foodservice sales through new marketing efforts. Direct mail advertisements stress cross-merchandising by suggesting customers pick up a sub and a bag of chips. POS materials in bedroom communities suggesting that commuters buy lunch with their breakfast purchase have boosted lunch sales in those markets.

Foodservice is a major business for 400-unit Jr. Food Mart of Jackson, Miss., which has stores in 19 Southern states. The chain's foodservice anchor is Creole Fried Chicken, which shares a fast food-style counter with the Express Street Deli and Morning Fresh Bakery. Most stores have from 24 to 40 seats.

In North Carolina, T-Mart Food Stores are destination chicken-and-biscuit stops.

Currently, the chicken is fresh and marinated, battered, and fried on the premises. Looking to save labor, Jr. Food Mart is testing frozen and gas-packed chicken products. The chicken sells strongly from 10 a.m. to 9 p.m., with sales split evenly for lunch and dinner.

Jr. Food Mart's Morning Fresh Bakery features donut and biscuit products. The donuts are bought frozen and glazed at the store. To save labor, the chain is testing selling Dunkin' Donuts or products from other specialty chains in its stores under the Morning Fresh Bakery logo. Handheld biscuit sandwiches are also popular breakfast items.

Located primarily in small towns, Jr. Food Mart attracts many customers for its foodservice alone. Although gasoline is the biggest draw, 20% of the stores' customers purchase fast food. Of foodservice customers, 60% come specifically for something to eat or drink.

The folks at Delafield, Wis.-based Dairyland Fuels find that customers want convenience more than anything from the foodservice at its Daybreak convenience store. The store provides made-to-order sandwiches, but most customers are too time-pressed to wait for their order to be made.

Instead, most customers grab prepackaged sandwiches, which are replaced once a week, and frozen sandwiches that they can microwave in the store. Double-grilled cheeseburgers and tacos are other typical selections. "I prefer it that way because there's no work for me," says Daybreak manager Jim Congdom. "I'm exploring the possibility of not making sandwiches to order at all."

Other self-service items sell well,

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too. By-the-slice pizza, which is prepared from a frozen product and held for one hour, is popular, as are hot dogs.

At breakfast, baked goods are strong sellers. Congdom warms frozen donuts, brownies, and muffins and puts them out for sale. He has encouraged coffee sales by offering a 16-oz. coffee for 25¢ to customers who bring in their own Daybreak mug. The mug costs $2.49. The same size coffee ordinarily runs 50¢.

Miami, Fla.-based Food Spot Stores keeps its foodservice program basic because its 40 stores are in Miami's Dade and Broward counties, where fast-food competition is fierce. The chain offers hot dogs in some stores, premade and made-to-order deli sandwiches in others, and Cuban pastries and coffee in yet others. Many stores carry Dunkin' Donuts products for breakfast. The donuts are sold under Dunkin' Donuts' name, using the chain's logo, napkins, and bags. Food Spot buys the donuts daily on a consignment basis from a local franchisee, and pays only for what's sold.

Food Spot tests new foodservice items regularly but finds that, in such a diversified market area, few products sell well chainwide. Frozen yogurt machines were installed in nine stores, for instance, to mixed reviews. While sales are strong in a few units, others just break even. "You've got to be in a neighborhood where people are into a product like that, but where you're not near a strip shopping center that has a frozen yogurt specialty shop with a choice of toppings and flavors," notes Deutsch.

Food Spot is now testing Philadelphia-style pretzels. The pretzels arrive frozen; to prepare them for sale, employees spray the pretzels with water; sprinkle on cinnamon, onion, or garlic toppings; and bake them.

Brothers Angelo and Dino Kiahtipes have been using foodservice as a draw to their Market Express convenience store since opening day two years ago. Market Express is located across the street in Price, Utah, from a convenience store known for its fried chicken. The Kiahtipeses therefore decided to charbroil hamburgers in their store, and the menu has helped draw a steady following among schoolchildren and commuters.

Market Express' signature item is the Deliburger, a quarter-pound patty topped with pastrami and Swiss cheese. Locals also crowd into the store's six booths to consume french fries, made-to-order hoagies, and by-the-slice pizza (the Kiahtipeses buy the crust and sauce but prepare the pizza on premises). Ham and cheese croissants have become popular breakfast items. Many commuters pick up a premade hoagie with their breakfast and take the hoagie to the office for lunch.

White Hen Pantry, Inc., is so dedicated to its foodservice program that senior vice president

The 400-unit Jr. Food Mart's foodservice anchor is its Creole Fried Chicken, which shares a counter with the Express Street Deli and Morning Fresh Bakery.

Most c-store food offerings are simple and fast.

of operations Allen Davis refers to its convenience stores as "delicatessen oriented." Since the Elmhurst, Ill.-based chain's founding in 1965, sandwich counters have been central to every unit built.

Each of White Hen Pantry's 390 convenience stores has an eight-foot deli case from which sandwiches are made to order. A variety of salads are brought in regularly from an outside supplier. A handful of hot entrees such as chili, soup, and roast beef supplement the menu.

White Hen's management does not, however, believe in offering chicken, pizza, and other high-maintenance hot foods. "If you have fresh deli, you're going to have fresh deli," says Davis. "When you have foods sitting on a steam table, they pass away in a hurry. You have to sacrifice quality. That's not our image."

White Hen promotes sandwiches and bulk deli purchases in its weekly newspaper advertisements. White Hens are located in Illinois, Wisconsin, Indiana, Massachusetts, and New Hampshire. About 90% of the stores are franchised.

Foodservice is a profit center for White Hen, though not its only profit center. "Our deli doesn't bring in a huge percentage of our sales," Davis reports, "but it does bring in a very important portion." He would not reveal specific numbers.

Chicago-based Amoco offers refreshments of some sort at each of its 6,000 filling stations. Some stations have no more than a soft drink machine while

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others have full-fledged mini Amoco Food Shop convenience stores stocked with fountain beverages, hot dogs, and microwavable sandwiches. Most of these are impulse purchases. According to Amoco's food shop merchandising specialist Kathy Latham, the majority of customers stop at the Amoco primarily for gasoline and then might decide to buy an easy-to-grab food item.

Gasoline is a dirty business, leaving Amoco wary of expanding its foodservice offerings too far. "When you tie gasoline to open food," Latham explains, "you need excellent controls. That's why so few of our jobbers [small oil companies that run 60% of Amoco's stations] feel fast food is worth the effort."

Fountains, however, are the stores' most profitable area, so Latham encourages managers and jobbers to use them. "I suggest that everyone install the largest number of valves that they can possibly fit," she says.

A deli counter has long been a staple in Philadelphia-based Wawa Food Markets' 500 Delaware Valley and Connecticut convenience stores, and now the chain is aggressively testing ways to improve and expand its foodservice offerings.

Last summer, Wawa introduced The Shorti, a small hoagie aimed at bringing women and white-collar men into the store for lunch. Billed as being "For One Hungry Person," The Shorti has helped increase sales, a spokesperson says, without revealing any specific details.

Wawa has also begun buying its hot food items in a "cook-chill" state similar to that used in many hospital foodservice kitchens. Foods are bought frozen in plastic bags, then "rethermalized" in a hot water bath. The spokesperson says cook-chill technology has enabled Wawa to prepare smaller amounts at one time, to prepare foods more closely to serving time, and to discourage staff short-cuts (because there are none that can be taken). Macaroni and cheese, beef and cheese, meatballs for sandwiches, and soups are all purchased and prepared in this manner. New fillings for hot sandwiches such as barbecued pork and steak and cheese have recently been added.

Looking to make foodservice an even bigger part of its customer draw, Wawa is beginning to test the use of nationally branded fast-food counters in its stores. Pizza Hut and Taco Bell, for example, will have in-store carts featuring limited menus.

In rural North Carolina, T-Mart Food Stores have become destination chicken-and-biscuit stops for diners on the go, according to Godwin of the 14-unit, Dunn, N.C.-based chain. He credits his success to the hands-on management a small chain can provide, and a stable workforce that sticks around long enough to learn about quality and cleanliness. Once a week, T-Mart customers also settle into the stores' seats for fried fish and chips.

Deli sandwiches are made in some T-Marts, and now Godwin is exploring the addition of "perceived-healthy" salads. Using mostly ingredients such as lettuce and tomato already in stock as sandwich toppings, Godwin is looking into adding a garden salad and a pasta salad to some stores. The salads would be made on the premises.

Foodservice's future in convenience stores in unclear, but opportunities abound, according to Godwin.

"I think that foodservice will stay pretty stable for the next couple of years until people figure out their strategy," Godwin predicts. "Right now there are a lot of operators getting out of it because of their inability to do it well. But I think there's an opportunity for those folks who figure out how to do it well." RB

Despite a unit decline, sales and profitability were strong in 1991, due in part to record increase in gas sales.